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FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3634
INFO RHEHNSC/NSC WASHDC IMMEDIATE
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UNCLAS SECTION 01 OF 03 BEIJING 001097

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E.O. 12958: N/A
TAGS: ECON SOCI CH
SUBJECT: CHINA'S HEALTHCARE REFORM/REBALANCING:
PROGRESS, BUT WITH CAVEATS

Refs: A.
http://shs.ndrc.gov.cn/ygjd/ygwj/t20090408_27 1138.ht
m
¶B.
http://shs.ndrc.gov.cn/ygjd/ygwj/t20090408_27 1137.ht
m
¶C. Beijing 580
¶D. Beijing 693, Beijing 829, Hong Kong 421
¶E. Beijing 422, Beijing 359

¶1. (SBU) Summary: China's blueprint for healthcare reform released on April 6 is being heavily promoted by the official media but will take years to implement and experts question whether it will address fundamental problems in China's healthcare system. The plan is unlikely to improve trust in the healthcare system or to fundamentally change savings and spending behavior, particularly in the next few years. The overall scheme aims for universal healthcare coverage by 2020. In the initial 2009-2011 phase, China intends to invest RMB 850 billion ($124 billion) in five broad reform areas: 1) basic healthcare insurance, 2) a national essential medicines program, 3) improvement of the rural health care service network, 4) elimination of the gap between urban and rural healthcare, 5) and continuation of public hospital pilot projects. Implementation will be difficult, and because Chinese will still be required to keep large discretionary savings to pay for health care contingencies, the plans are only a small first step in the direction of rebalancing towards domestic demand-driven economic growth. End Summary.

The Basic Blueprint

¶2. (U) On April 6, the Government of China released a State Council "Opinion" on deepening healthcare reform as well as implementing guidelines for 2009 to 2011 (see Refs A and B). Together the two documents flesh out the Chinese Communist Party (CPC) Central Committee and the State Council health care system reform framework adopted on January 17, 2009, as well as plans announced at the 17th National People's Congress in March (See Ref C) to invest an additional RMB 850 billion ($124 billion) over the next three years. The Central Government will invest RMB 331.8 billion and provincial and lower governments will cover the rest.

¶3. (U) The Government's plan aims to repair China's healthcare system and achieve universal access to

'basic' healthcare coverage by 2020. The announcement on April 6 spells out five broad reform areas: 1) basic healthcare insurance, 2) a national essential medicines program, 3) improvement of the rural health care service network, 4) elimination of the gap between urban and rural healthcare, 5) and continuation of public hospital pilot projects.

¶4. (U) Key features of the announced plan include the following:

--(U) Government support for the construction of 2,000 county-level hospitals and thousands of urban community clinics.

--(U) Training sessions for village and township medical clinics and urban community medical centers. Specifically, China hopes to train 360,000 health care professionals for township health centers, 160,000 for urban community health institutions, and 1.37 million for village clinics in three years.

--(U) Coverage of 90 percent of rural and urban residents with basic medical insurance by 2011. By 2010, subsidies to the Urban Residents' basic medical insurance (URBMI) and the New Rural Cooperative Medical Scheme (NCRMS) will be increased to RMB 120 (US$17.60) per person per year. The maximum amount payable by the Urban Employees' Basic Medical Insurance (UEBMI) and URBMI will be increased to six times the annual average salary of local employees and disposable income of urban

residents. The maximum amount of the NRCMS will be increased to over six times per-capita net income of local farmers. (Note: Given limited resources, there is still a role for commercial insurance providers to cover services not deemed 'basic' or exceeding the maximum amount payable by UEBMI, URBMI, and NRCMS. Commercial insurance products are not part of the healthcare reform plan, and are mostly tailored to employees of large state owned enterprises and private companies, mostly in cities. End Note.)

--(SBU) A list of national essential medicines will be released in early 2009. The Implementation Plan includes provisions to incorporate the role of market forces in 'pushing forward mergers and restructuring of pharmaceutical manufacturing and distributing enterprises.' Additionally, according to Dr. Li Yachan, the Deputy Division Director at the Department of International Cooperation of the State Administration of Traditional Chinese Medicine, it appears that traditional medicine treatments will comprise approximately 50 percent of the national essential medicines list.

--(U)Increasing government regulation of medical services and prescribing practices to avoid over-prescription to fund hospital operations. The Implementation Plan includes wording to increase public disclosure of hospital budget, expenditure, and revenue management information.

The Gaping Hole: Funding for Public Hospitals

¶5. (U) The Government's plan calls for continued pilot projects to reform public hospitals. In the key area of hospital funding, which underlies the problem of relying on drug sales and expensive diagnostic techniques, the plan calls for gradual changes to service charges, drug sales, and fiscal subsidies. The goal is to make service charges and

fiscal subsidies the primary channels for funding public hospitals.

¶6. (SBU) This gradual approach, however, appears to avoid an aggressive effort to attack the root of the problem of hospitals and doctors using the sales of prescription medication and expensive tests to make up for budget and salary shortfalls. (Note: In a web-poll conducted by sohu.com, 75 percent of the 2,183 doctors surveyed earned an annual salary of less than 40,000 Yuan ($5,883). End Note.)

An Important Step, but with Challenges Ahead

¶7. (SBU) The official media is portraying the plan as a historic move, and some local and international experts express the need for effective implementation. Hu Wu, a rural social safety net expert at the Southwestern University of Finance and Economics in Chengdu, told Econoff that despite his reservations, the reform plan is still a good thing for farmers. The number of rural families forced into poverty due to illness may drop, according to Hu, and with lower medical expenditures, they may feel at least a little bit more secure.

¶8. (SBU) According to Hu, it will take time to set up clinics in every village and equip rural hospitals. It will take even longer, according to Hu, to staff the facilities with qualified personnel and then get the system fully functioning. Hu is also concerned that implementation may encounter wide-spread local corruption and resistance from the medical care sector and pharmacy industry. He worries about corruption and embezzlement of Central Government funds used for the project. Similarly, Peking University's Cai Hongbin expressed concern about the overall corruption of the existing healthcare and reimbursement system. At the request of the Ministry of Health, Peking University has assembled teams to study ways to mitigate corruption and embezzlement.

The Health Plan, Rural Consumption, and Rebalancing

¶9. (U) In the official media Chinese academics argue that increased healthcare expenditures under the plan will help reduce precautionary savings, thus increasing domestic consumption, helping to rebalance the economy to rely less on exports and investment. Official media reports that the plan will help reverse the trend in who bears the burden of medical costs, in which the share of personal spending on medical services has doubled from 21.2 percent in 1980 to 45.2 percent in 2007, while Chinese Government funding has dropped from 36.2 percent in 1980 to 20.3 percent. (Note: This data is based on official records. Because many doctors and hospital fees are paid covertly in 'red envelopes' (gratuities) directly by the patient, the proportion of private medical expenditures are likely even greater. End Note.)

¶10. (SBU) Hu told Econoff that the Government's health-care reform plan, even when thoroughly implemented, will NOT prompt farmers to consume more, particularly in the near future (see Ref D). Hu surmised that the Government's reform plans, if well carried out, may make farmers less worried when seeking medical care for common illnesses, but care for serious or catastrophic illnesses will still require an expensive trip to county/municipal-level

hospitals. (Comment: It is also common in China to seek treatment and care from the most renowned or 'famous' doctors and hospitals even if adequate care can be obtained at a local clinic for substantially lower cost. Establishing public trust in the community clinics after they are built and staffed will therefore remain a challenge. End Comment.) Hu said this will still force rural residents to pay a lot out of their own pocket.

¶11. (U) Further, although starting in 2010 the Government will raise annual subsidies for rural and urban residents to RMB 120, the insured still will have out-of-pocket expenses that might leave patients without appropriate coverage. Most patients will also quickly hit the upper limit for reimbursements. For farmers, especially those in poor areas with serious illnesses, the affordability gap will therefore remain large. Hu said rural families are also burdened with costs for old-age care and the lack of a rural pension system. (Comment: Because the healthcare reform plan will only partially address the lack of trust in the rural healthcare system and other aspects of the social safety net remain weak, any increase in rural consumption will be small due to the need to maintain high precautionary savings. End Comment.)

Comment: The Devil is In the Implementation Details

¶12. (SBU) China's healthcare has suffered from reduced Government funding during the last 30 years of market reforms. The Government plans released April 6 follow years of failed efforts to fix the system, as well as intense debate and repeated revisions to the current plan over the previous few years.

¶13. (SBU) Difficulty implementing institutional reforms in rural China is particularly challenging (Ref E). Constructing rural healthcare facilities, like other infrastructure and construction projects, poses less of a challenge than the more important task of staffing these facilities with qualified personnel and building a transparent, corruption-free system with appropriate incentives and salaries. Local governments are also expected to cover over half of the costs of implementing the plan, but lack of funding and weak institutional capacity at the local level may present a significant barrier to successful implementation.

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